



IB ECONOMICS REVISION WORKBOOK



Points to Note:

- Areas surrounded by a dashed border are Higher Level only
- This pack contains all the content for Standard Level
- This pack contains all the content for Higher Level apart from 'Theory of the Firm' (Chapters 7 – 12 in the textbook)

Introduction to Economics

Define the following terms:

- Scarcity:
- Choice:
- Opportunity Cost:
- Utility:

What are the parts of 'the basic economic problem'?

- 1.
- 2.
- 3.

The factors of production are:

-
-
-
-

Draw a production possibility curve below for any two goods:

On your diagram above, illustrate the following:

- a. a point where all the economy's resources are being fully utilised, given currently available technology
- b. a point where they are not being fully utilised
- c. an increase in the productive potential of the economy

What is the difference between positive and normative economics?

What is the difference between a planned economy and a free market economy?

What sort of economy is the UK?

What is a 'transition economy'?

MICROECONOMICS

Demand and Supply

Demand is:

As the price of a good increases, the demand for that good will.....

Describe the following:

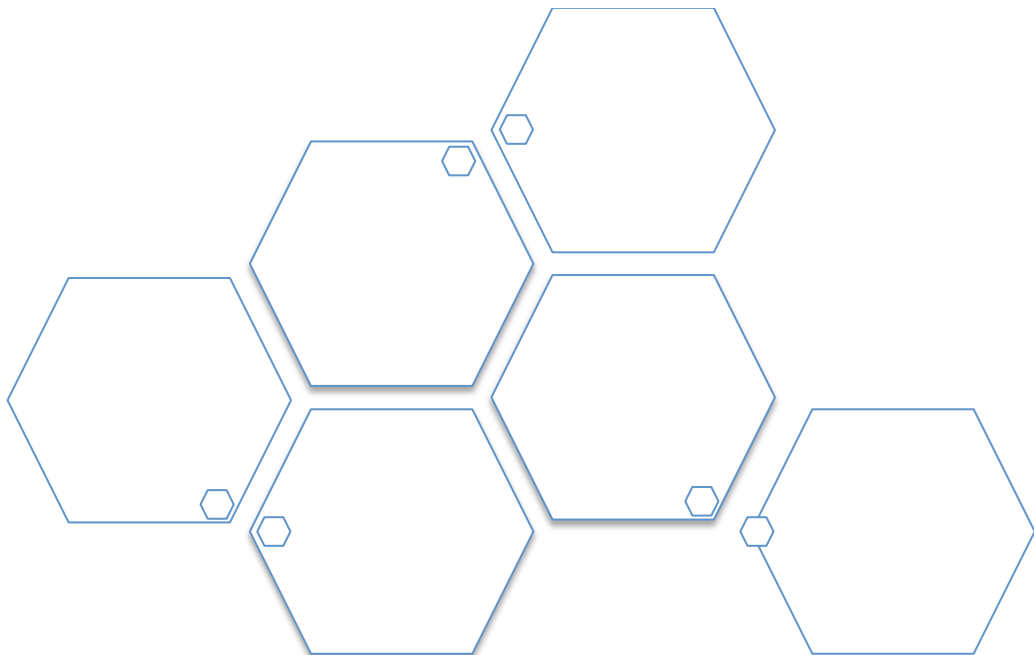
Income effect:

Substitution effect:

What is the difference between normal and inferior goods? Suggest examples of each:

What is the difference between substitute and complementary goods? Suggest examples of each of these pairs:

Suggest and explain some factors that will affect the demand for a product:



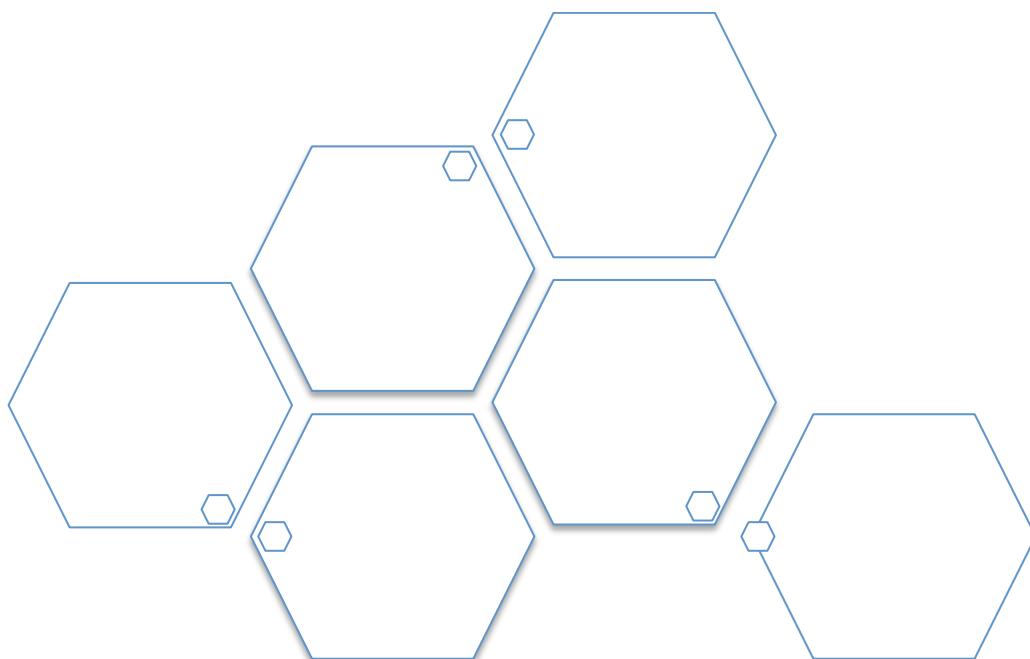
What is a Giffen good?

What is a Veblen good? Illustrate your answer with a diagram.

Supply is:

As the price of a good increases, the supply of that good will.....

Suggest and explain some factors that will affect the supply of a product:



Draw demand and supply diagrams below to illustrate the following:

- 1. Equilibrium 2. Excess supply 3. Excess demand**

Define the following:

- a. Minimum price scheme:
- b. Maximum price scheme:
- c. Buffer stock scheme

Draw diagrams below to illustrate each of the situations above:

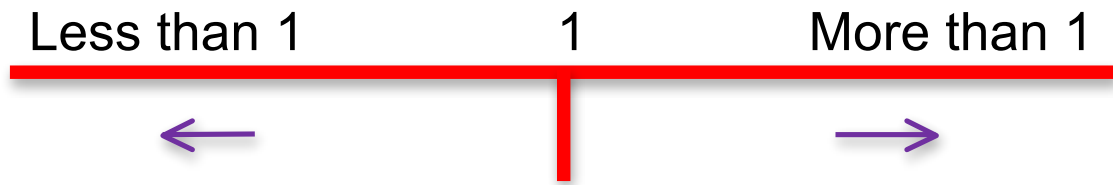
Define the following:

Consumer surplus:

Producer surplus:

Elasticities

Complete the diagram below with the words 'unitary', 'elastic', and 'inelastic':



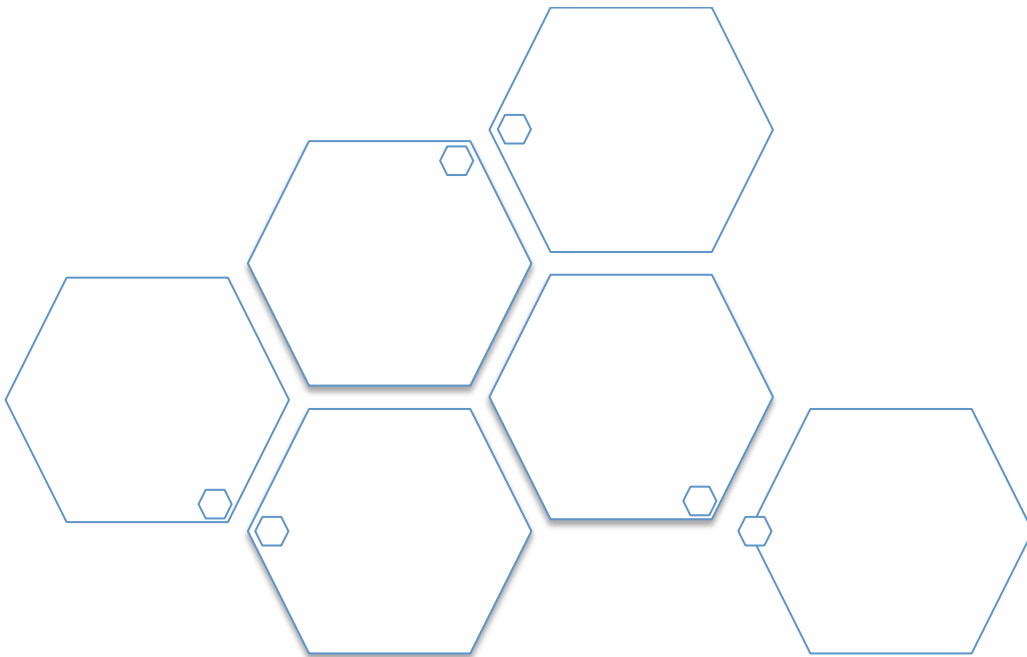
Price Elasticity of Demand

Definition:

Formula:

If a good has an inelastic PED and a firm raises its price, the firm's revenue will.....

What factors affect the elasticity of a product?



Cross Elasticity of Demand

Definition:

Formula:

If XED between two products is negative, they are said to be.....

If XED between two products is positive, they are said to be.....

Income Elasticity of Demand

Definition:

Formula:

If YED of a product is negative, it is said to be.....

If YED of a product is positive, it is said to be.....

Draw an Engel curve to illustrate what happens to the demand for a product over time as incomes rise:

Price Elasticity of Supply

Definition:

Formula:

What factors affect the elasticity of supply of a product?

Taxes and Subsidies

What is the difference between direct and indirect taxes?

A specific tax is:

An ad valorem tax is:

Draw a diagram below to illustrate the imposition of an ad valorem tax on a good:

Draw a diagram below to illustrate the imposition of a specific tax on a good:

Illustrate on your diagram:

- a. the tax burden/incidence of tax for producers
- b. the tax burden/incidence of tax for consumers

How would this change if the product became:

1. more elastic:
2. more inelastic:

- - -

Define a subsidy:

Illustrate what happens when a subsidy is introduced for a particular product:

How will elasticity of supply and demand affect your diagram above?

Market Failure

When, in a market/society, it is impossible to make one person better off without making someone else worse off, the situation is referred to as:

Asymmetric information is where:

Imperfect competition is where:

How can the government seek to reduce imperfect competition?

Public goods are:

- 1.
- 2.

Why will public goods not be provided in a free market economy?

Merit goods are:

Why will merit goods be under-provided in a free market economy?

De-merit goods are:

Why will de-merit goods be over-supplied in a free market economy?

Define the following key terms:

- a. marginal social cost:
- b. marginal social benefit:
- c. marginal private cost:
- d. marginal private benefit:
- e. external cost:
- f. external benefit:

Externalities Situations and Diagrams:

There are four different situations where externalities can occur. For each of these you need to draw a diagram and explain the situation. You should also include examples in your explanation.

1. Negative externalities of production:

Where the production of a good has negative effects on society

2. Positive externalities of production:

Where the production of a good has positive effects on society

3. Negative externalities of consumption:

Where the consumption of a good by an individual harms the rest of society

4. Positive externalities of consumption:

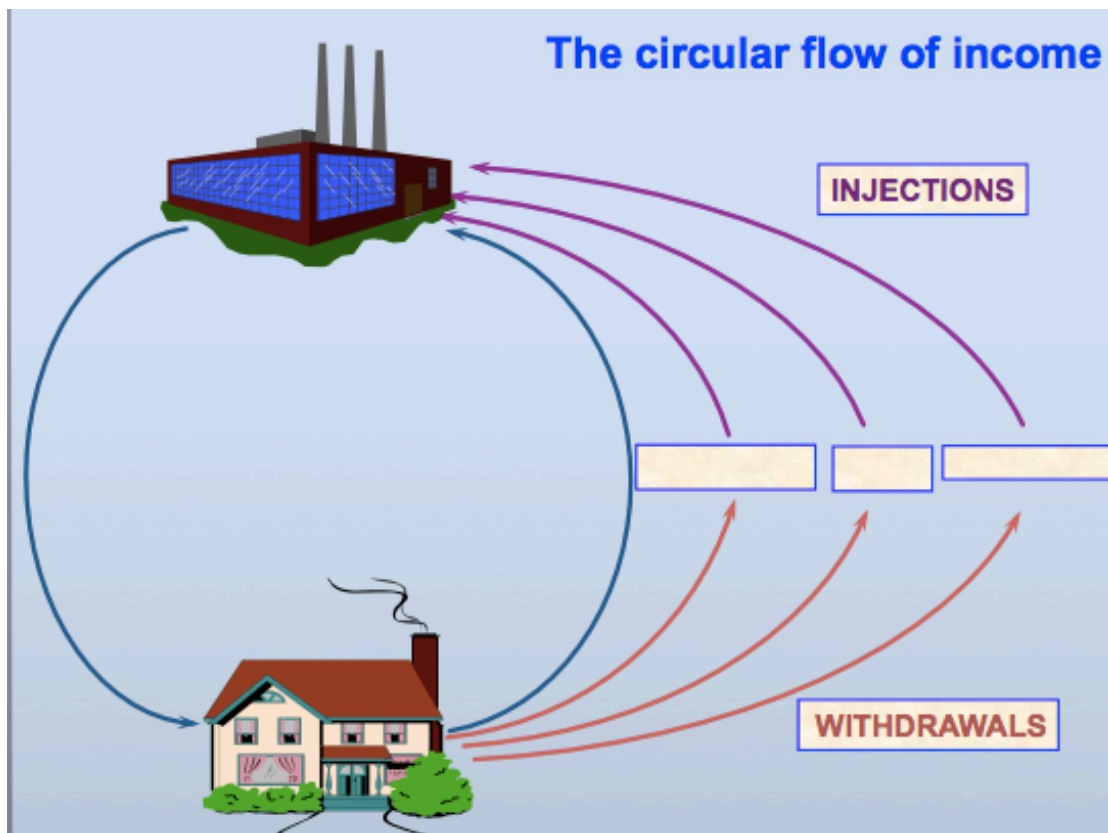
Where the consumption of a good by an individual benefits the rest of society

MACROECONOMICS

Measuring National Income

Circular flow of income:

Complete the diagram below by labelling all the lines and the empty boxes:



National income is measured by:

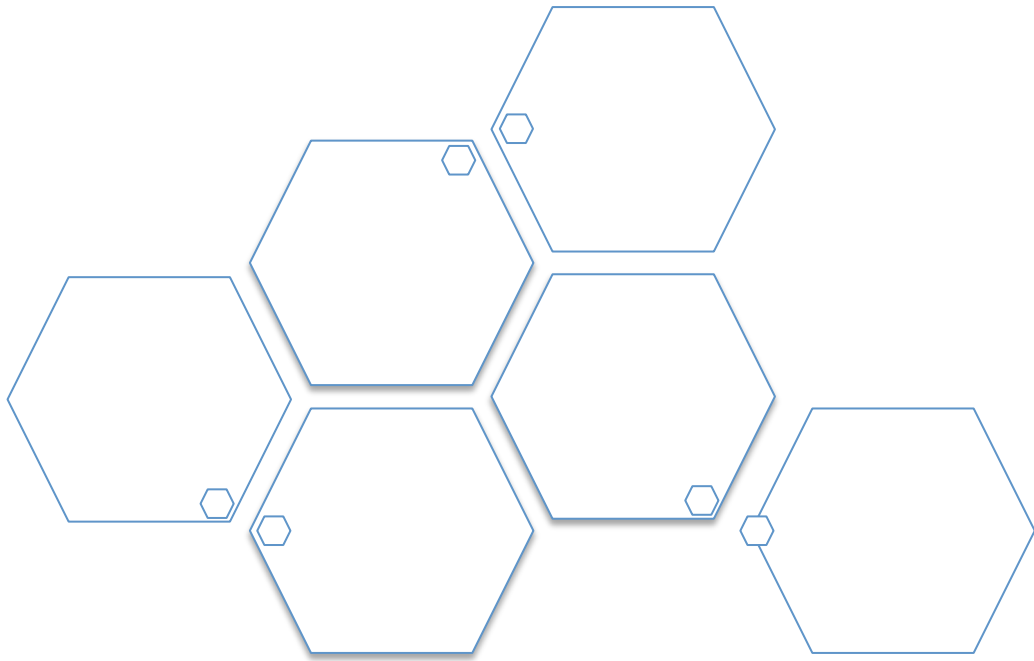
1. The output method:
2. The income method:
3. The expenditure method:

Gross national product = GDP +

What is the difference between **real** and **nominal** GDP?

What does GDP 'per capita' mean?

What are some of the limitations of using GDP as a measure of a country's standard of living?



Measuring Economic Development

What is the Human Development Index?

What is 'purchasing power parity' and why is it used to make comparisons between countries fairer?

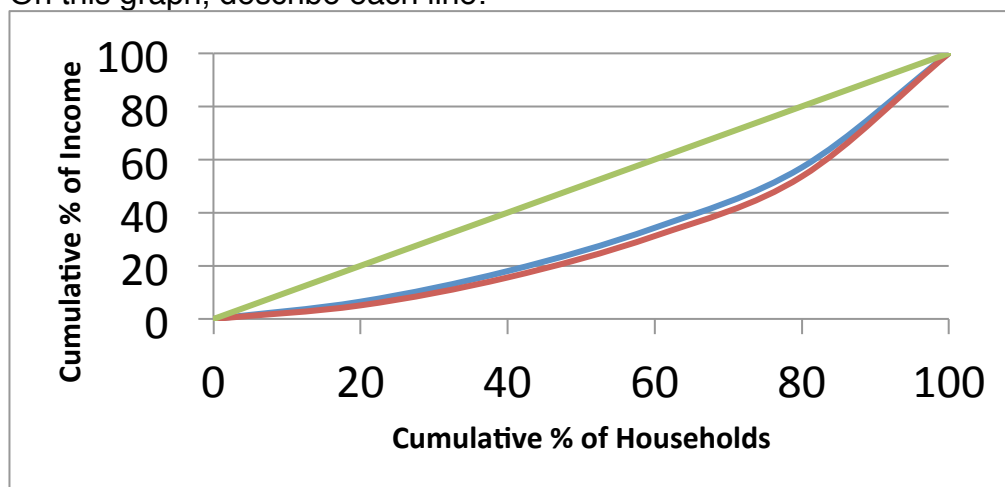
What is the 'gender-related development index'?

What is the Human Poverty Index?

The Lorenz curve is used to measure:

Household income data is split into:

On this graph, describe each line:



What is the **Gini index**?

How is it measured?

Aggregate Demand

$$AD = C + I + G + (X-M)$$

For each of these, define and explain it:

C:

I:

G:

(X-M):

For each of these, suggest reasons why it would increase/decrease:

C:

I:

G:

(X-M):

Demand-Side Policies

Fiscal Policy:

What is an 'expansionary' fiscal policy?

What is a 'contractionary' fiscal policy?

Monetary Policy:

Two methods of monetary policy are:

1.

2.

Aggregate Supply

What is aggregate supply?

In the space below, draw a short-run aggregate supply curve:

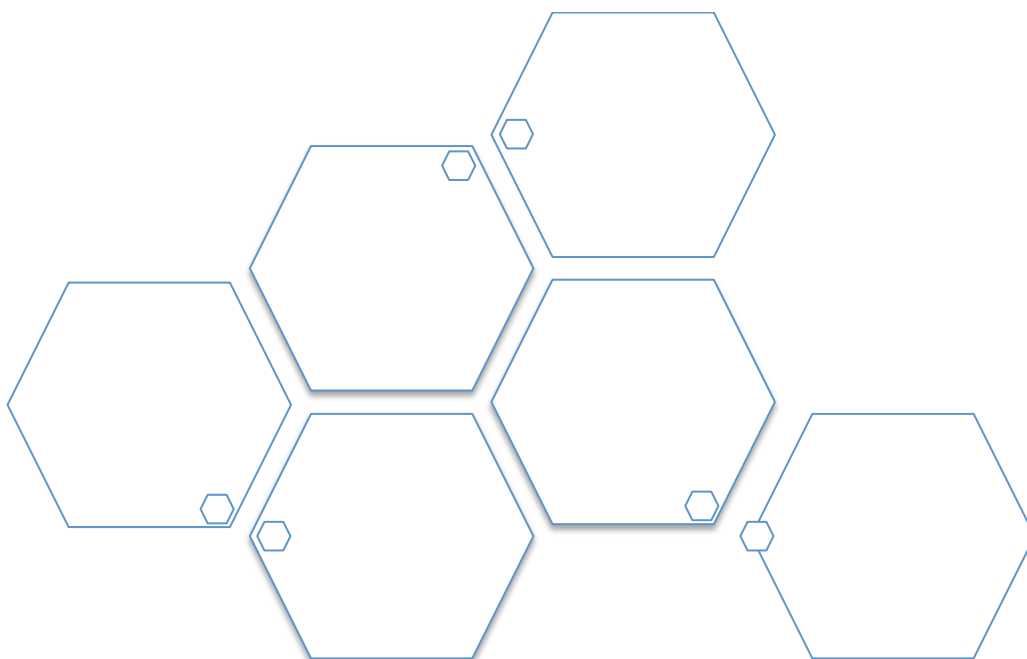
What factors might cause AS to increase or decrease?

Draw a diagram below illustrating the Keynesian Long-run Aggregate Supply Curve, and explain what it means:

Draw a diagram below illustrating the Neo-Classical Long-run Aggregate Supply Curve, and explain what it means:

For both long-run diagrams above, using a different colour, illustrate an increase in economic growth

What supply-side policies could a government use to shift the AS curve to the right?



Macroeconomic Equilibrium

Draw a diagram illustrating long-run equilibrium from a Keynesian perspective:

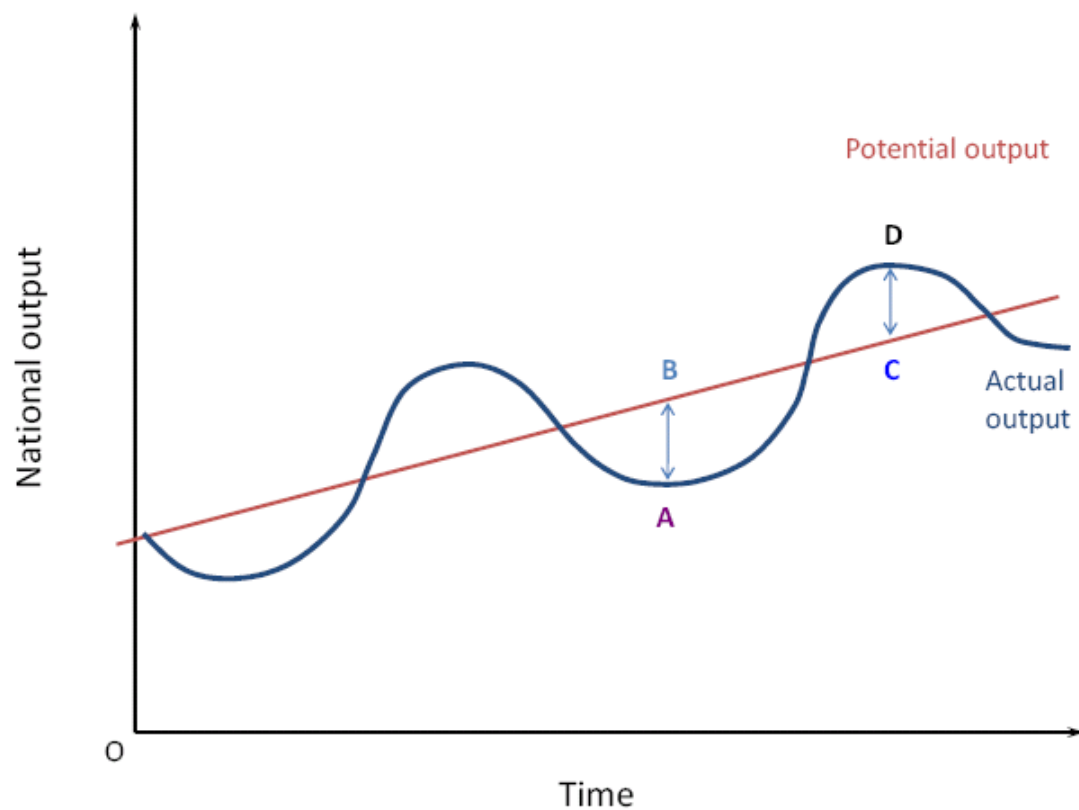
- Illustrate an increase in AD on your diagram
- What happens to the price level as AD increases?
- Explain why this occurs below:

Draw a diagram illustrating long-run equilibrium from a Neo-Classical perspective:

- Illustrate an increase in AD on your diagram
- What happens to the price level as AD increases?
- Explain why this occurs below:

Draw two diagrams below illustrating an increase in LRAS- a Keynesian diagram and a Neo-Classical diagram. For each one, explain what the effects of this shift have been on the economy as a whole.

The Business Cycle:



What are the following points on the above diagram?:

1. A:
2. D:
3. Red line:
4. A-B:
5. C-D:

The Multiplier:

What is the multiplier effect?:

What is the formula for the multiplier?:

The Accelerator Theory:

Define 'depreciation':

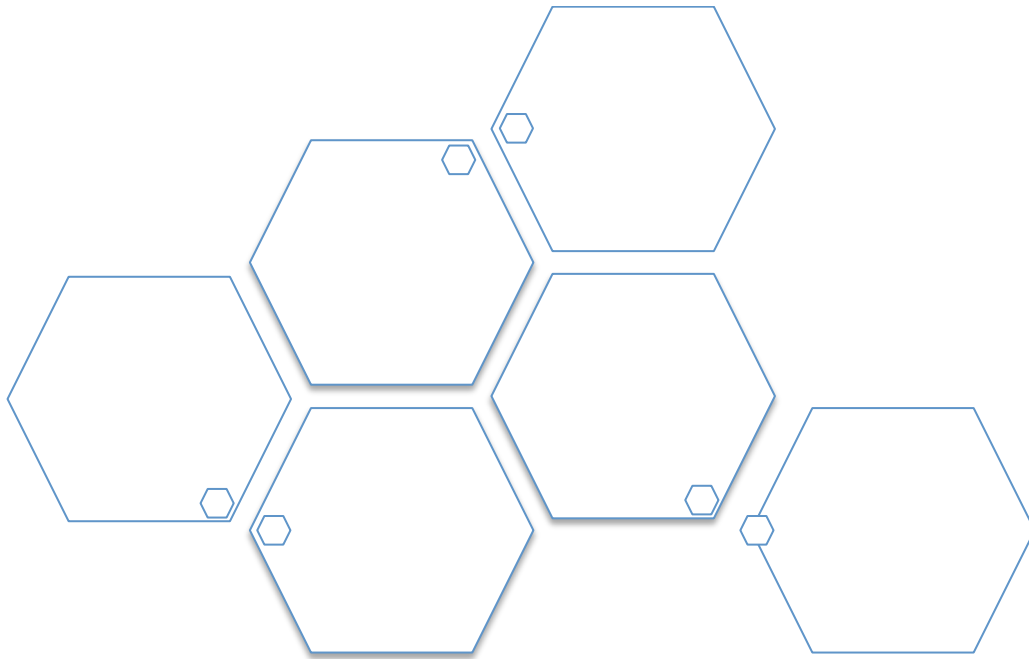
Explain the accelerator theory:

Inflation and Deflation

Define the following terms:

- inflation:
- deflation:
- disinflation:

What are the negative side-effects of inflation?



Why is deflation bad?

Identify and explain the two causes of inflation:

1.

2.

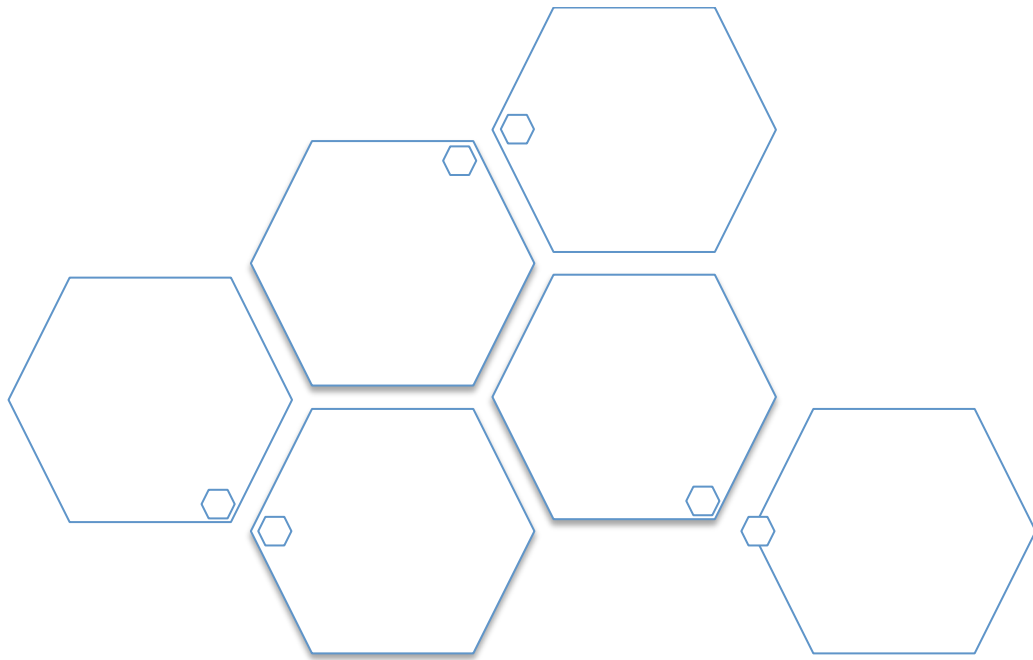
How does an increase in the supply of money cause inflation?

How can the government control inflation?

Describe the step-by-step approach to measuring inflation:

(use the following terms in your answer: basket of goods, price survey, household expenditure survey, weighting, index number, base year)

What are some of the problems of using inflation statistics to analyse an economy?



Unemployment

What is unemployment?

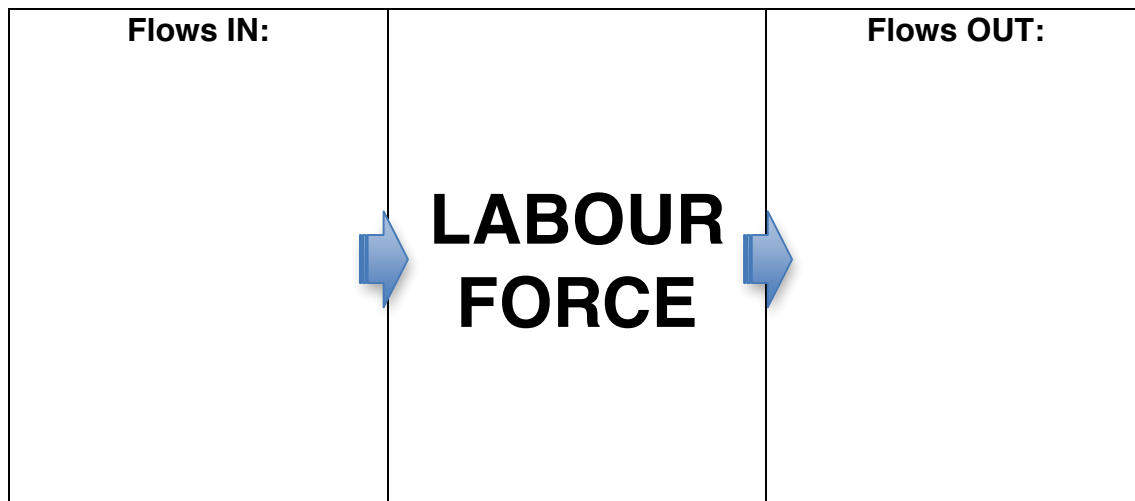
How does the International Labour Organisation measure unemployment?

How does the UK government measure unemployment?

What are the costs of unemployment to:

- unemployed people:
- society:
- the economy:

Complete the two columns below:



Describe each of the following types of unemployment:

Real-wage/Classical unemployment:

Demand-deficient/Cyclical unemployment:

Equilibrium/Natural unemployment:

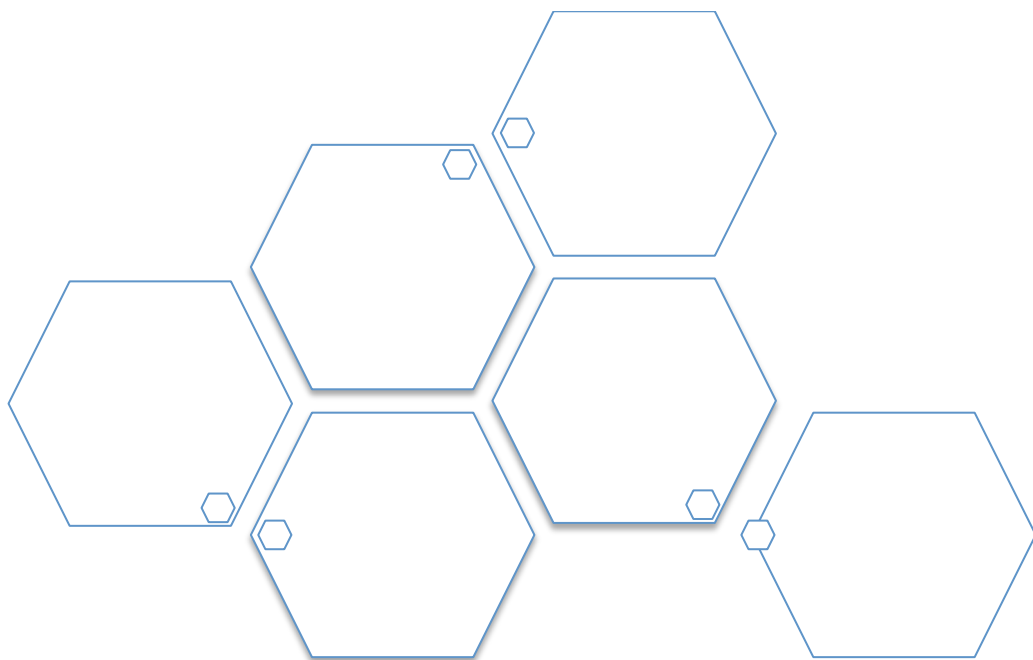
Frictional unemployment:

Seasonal unemployment:

Structural unemployment:

What solutions could the government put in place to reduce unemployment?

(Note that some of these will be for specific types of unemployment)



‘Crowding out’ is a problem when the government run a budget deficit in an attempt to increase AD. What is it and why is it a problem?

The Phillips Curve

Draw the Phillips Curve:

What happens to the wage rate when unemployment falls? Why?

What happens to the wage rate when unemployment rises? Why?

What is the NAIRU? Explain it

Distribution of Income

Define the following key terms:

Progressive tax:

Regressive tax:

Proportional tax:

Transfer payments:

Minimum wage:

What does it mean when a tax (e.g. UK income tax) is 'banded'? (to make it more progressive)

How can you criticise the idea of income redistribution?

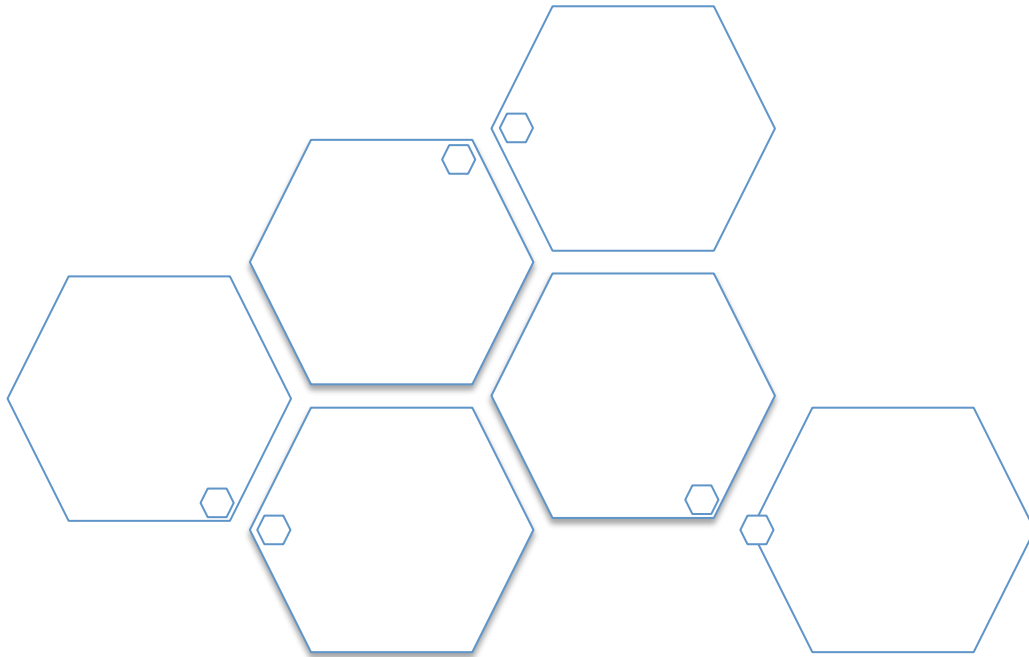
Draw and explain the Laffer Curve:



INTERNATIONAL ECONOMICS

Why do Countries Trade?

What are the benefits of trade?



	Wheat	Wine
England	10	15
Portugal	20	10

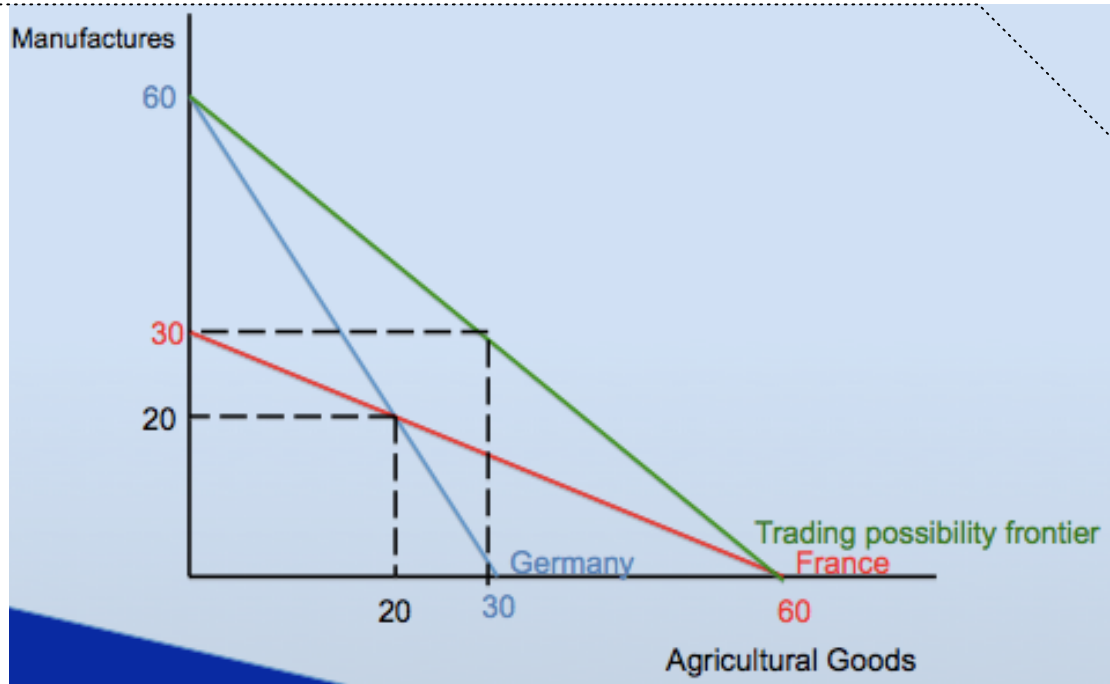
(cost per unit in worker hours)

Looking at the above table:

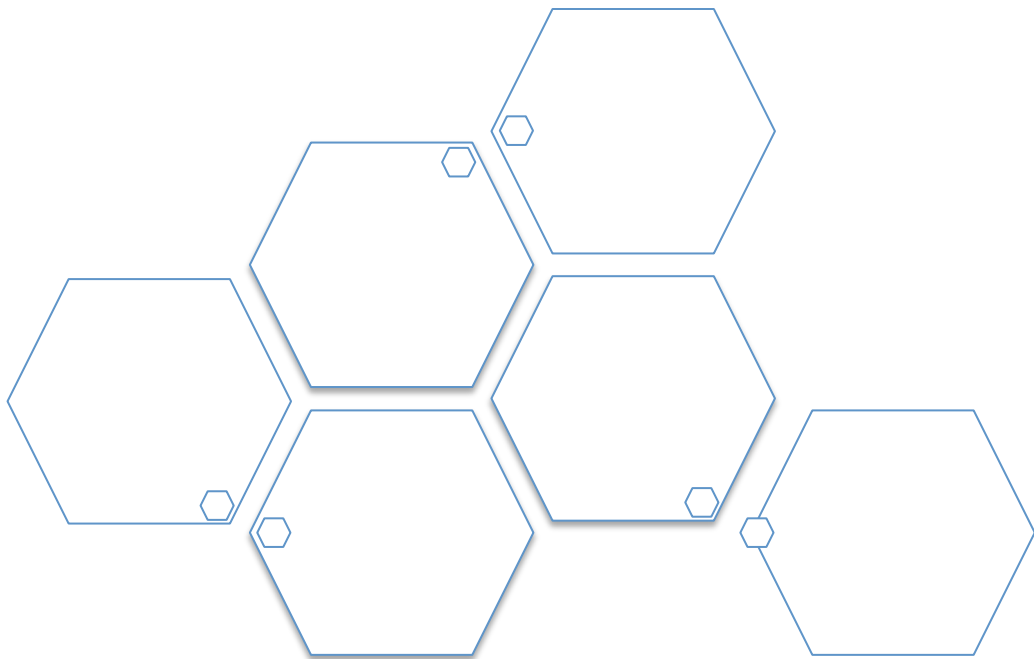
1. who can produce wheat more efficiently?
2. who can produce wine more efficiently?

Using this information, explain the concept of absolute advantage:

Using the diagram on the next page, explain the concept of comparative advantage:



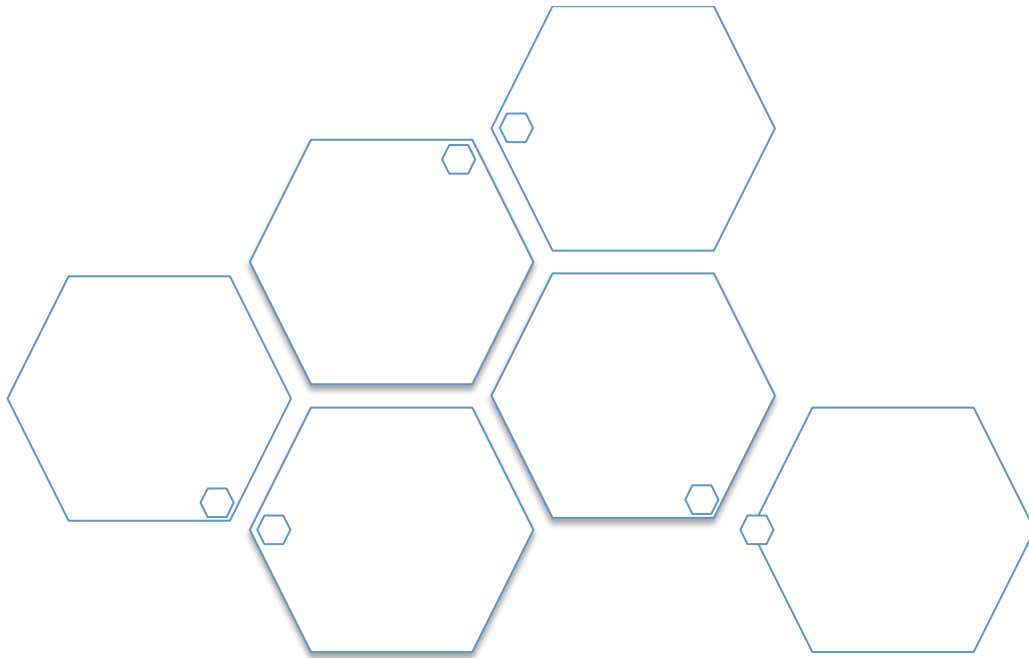
What are some of the limitations of the comparative advantage theory?



Free Trade and Protectionism

Define protectionism:

Why do countries engage in protectionism?:



(N.B. To consider the opposite to this argument, look to the previous section and the reasons you listed in answer to the question ‘why do countries trade?’)

What is a tariff?

In the space below, draw a diagram of how a tariff works and explain it:

On your diagram, make sure you illustrate and explain the following:

- economic rent
- deadweight loss
- revenue to taxpayer
- extra revenue gained by domestic producers

What is a subsidy?

In the space below, illustrate and explain the imposition of a subsidy on a product.

On your diagram, make sure you illustrate and explain the following:

- deadweight loss
- cost of subsidy for government
- extra revenue for domestic producers
- how revenue for foreign companies has fallen

What is a quota/'voluntary export restraint'?

In the space below, illustrate and explain the imposition of a quota on a product.

On your diagram, make sure you illustrate and explain the following:

- deadweight loss
- economic rent
- revenue for foreign companies allowed to export as part of agreement
- extra revenue for domestic producers

What is the World Trade Organisation?

What are its aims?

What does the phrase 'dumping' mean?

In the table below, consider some of the arguments regarding the WTO's achievements?

'The WTO is a great success':

'The WTO is a dismal failure':

Economic Integration:

What is 'globalisation'?

What are multinational corporations (MNC's)? Suggest some examples.

Define a trading bloc:

Trading blocs can vary depending on the level of integration involved. Complete the table below with a short summary of each type of trading bloc and examples:

Type of trading bloc:	Explanation:	Examples:
Preferential trading area		
Free trade area		
Customs union		
Common market		
Economic and monetary union		

Explain the concept of 'trade creation':

Explain the concept of 'trade diversion':

Exchange Rates

Explain the concept of a **fixed exchange rate**:

Explain the concept of a **floating exchange rate**:

Explain the concept of a **managed exchange rate**:

What factors could affect the **demand** for a currency?:

What factors could affect the **supply** of a currency?:

Complete the table below with relevant points:

Advantages of a high exchange rate:	Disadvantages of a high exchange rate:
Advantages of a low exchange rate:	Disadvantages of a low exchange rate:

How can the government intervene in currency markets?

Complete the table below:

Advantages of a fixed exchange rate:	Disadvantages of a fixed exchange rate:
Advantages of a floating exchange rate:	Disadvantages of a floating exchange rate:

Complete the table below:

Advantages of a single currency:	Disadvantages of a single currency:
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Explain the concept of Purchasing Power Parity:

Why is this used when comparing data between different countries?

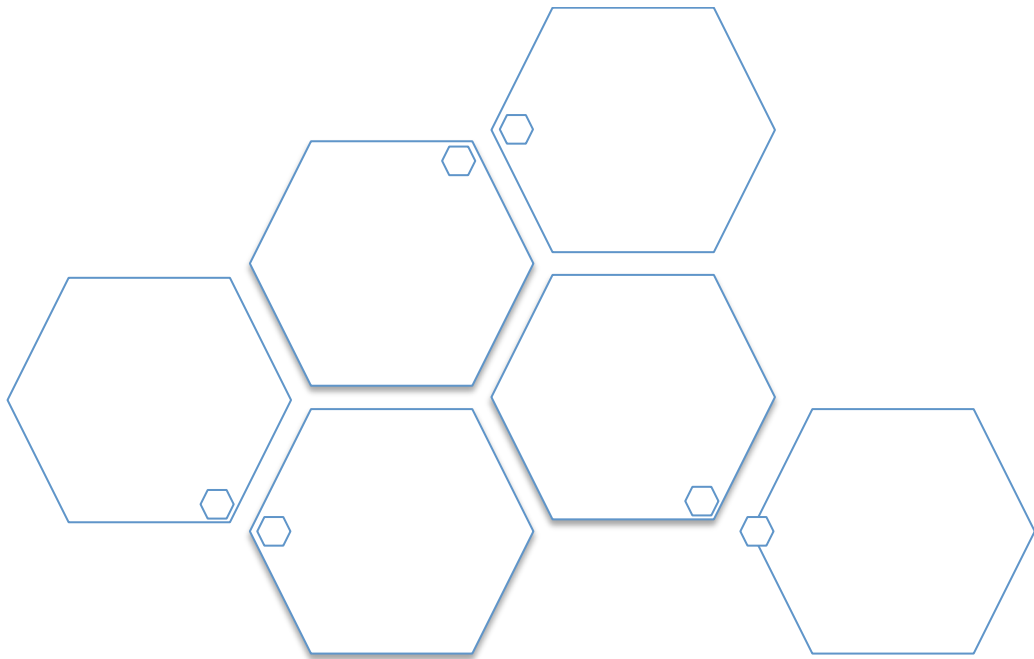
Balance of Payments

The **current account** is made up of:

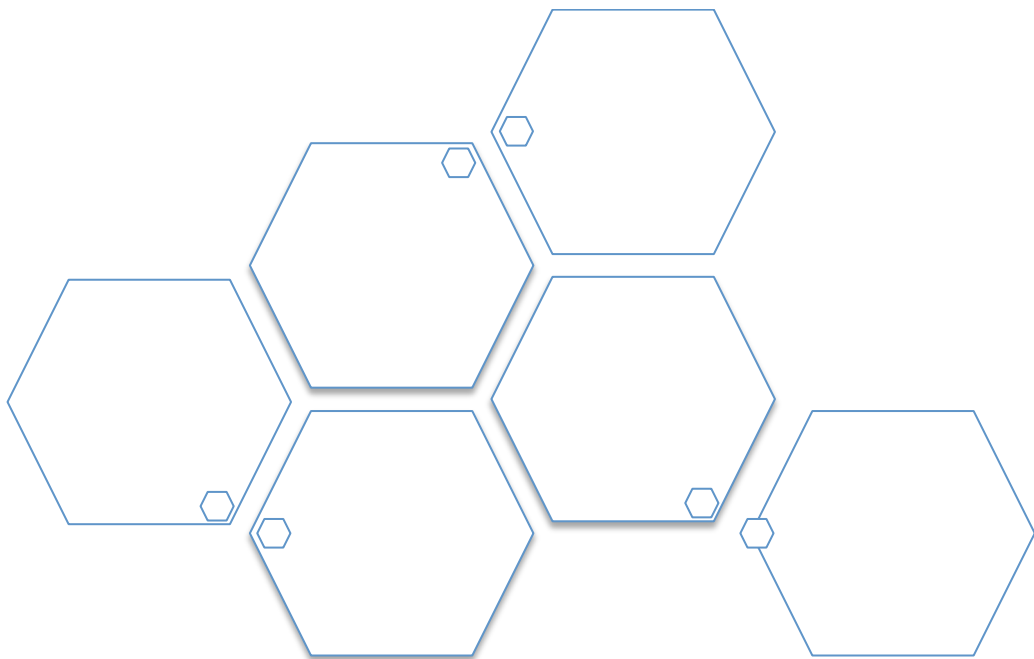
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The **capital account** includes:

What are the consequences of a current account deficit?



What are the consequences of a surplus on the current or capital account?



Governments can correct a persistent current account deficit by:

1. Expenditure-switching policies:

2. Expenditure-reducing policies:

State and explain the **Marshall Lerner Condition**:

Draw and explain the **J-curve effect**:

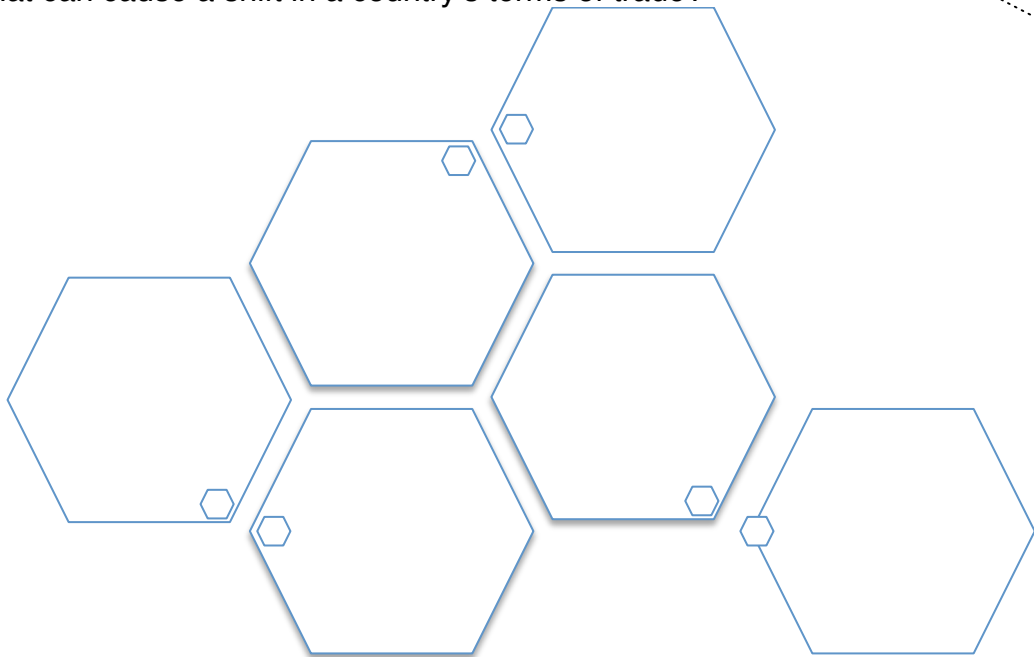
Terms of Trade:

Terms of Trade =

What does it mean if a country's terms of trade 'improve'?:

What does it mean if a country's terms of trade 'deteriorate'?:

What can cause a shift in a country's terms of trade?



Price elasticity of demand for exports=

Price elasticity of demand for imports=

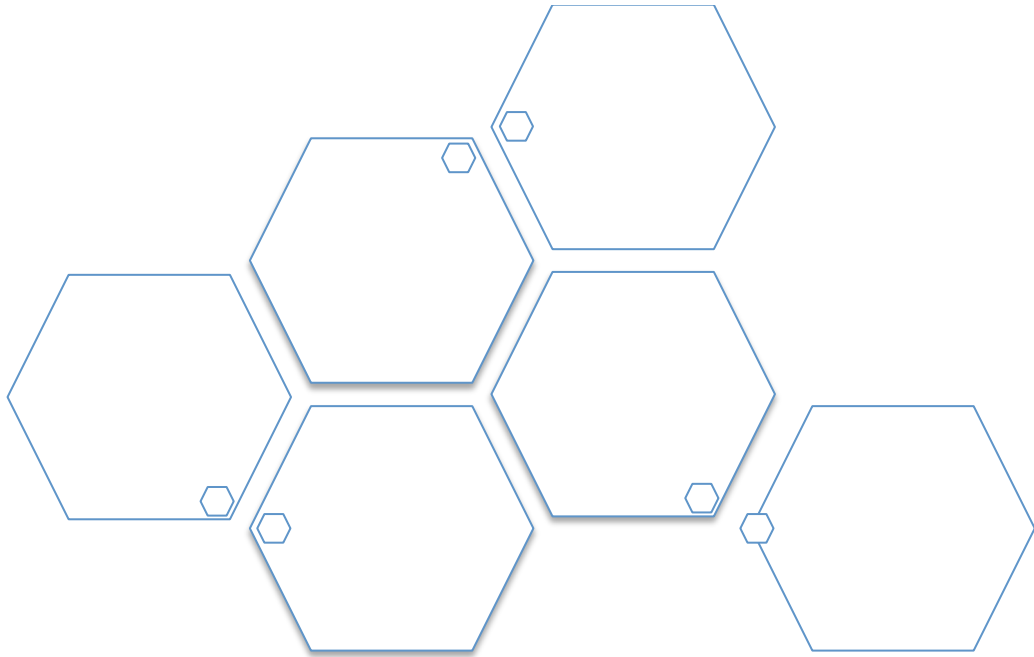
How does an improvement in the terms of trade affect a country?

Developing countries have generally been experiencing **declining terms of trade**. Why is this and why might it be a problem for them?

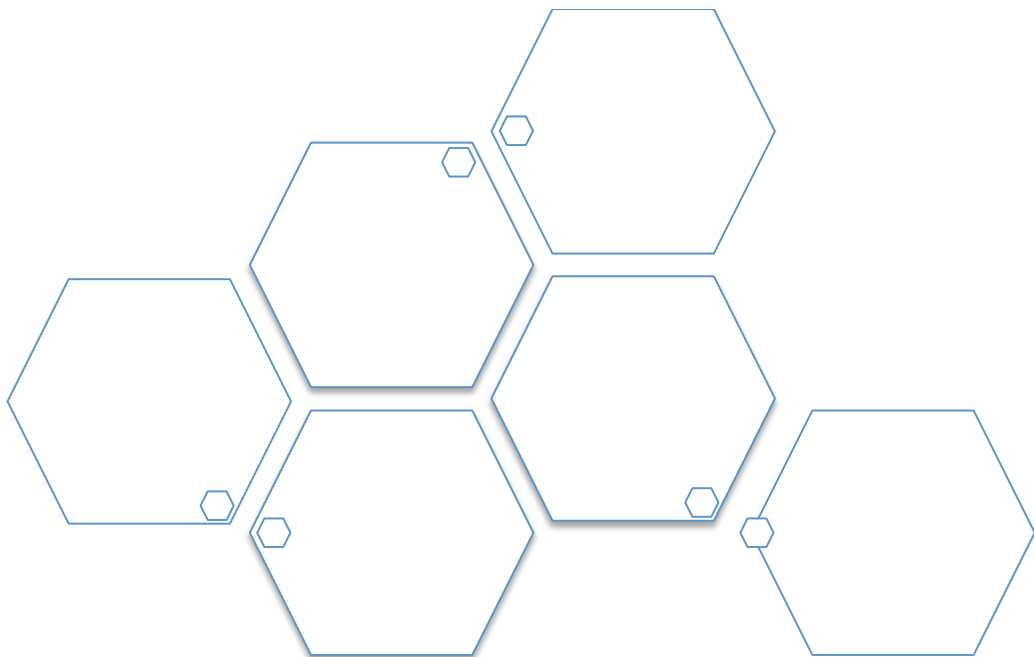
DEVELOPMENT ECONOMICS

Characteristics of Developing Countries

What are some of the key characteristics of developing countries?

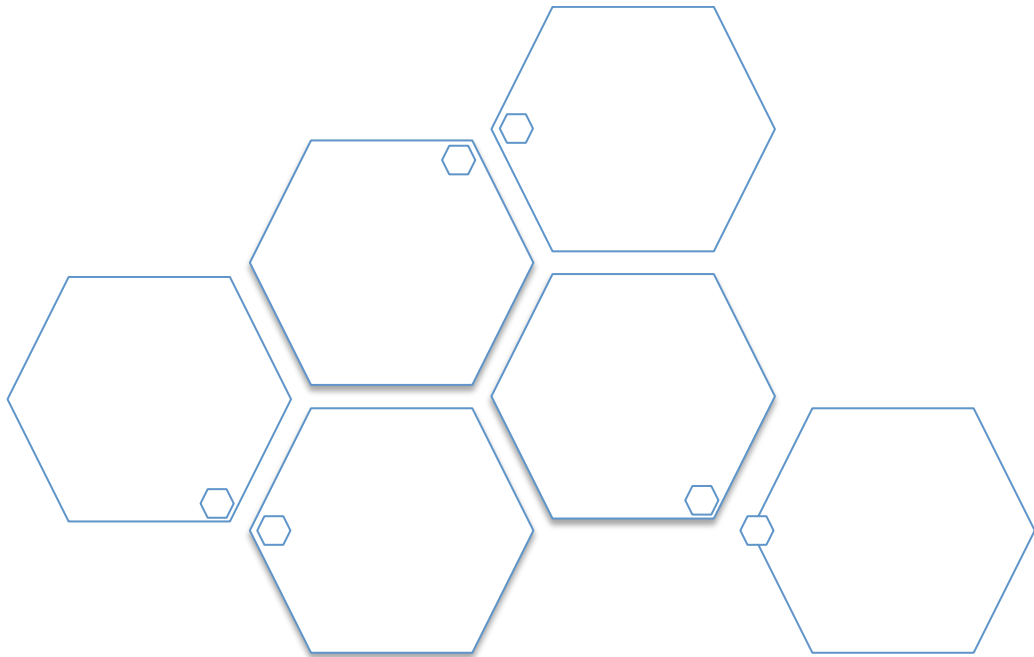


How are developing countries distinct from each other?



Sources and Consequences of Economic Development

In what ways can a country benefit from economic growth?:



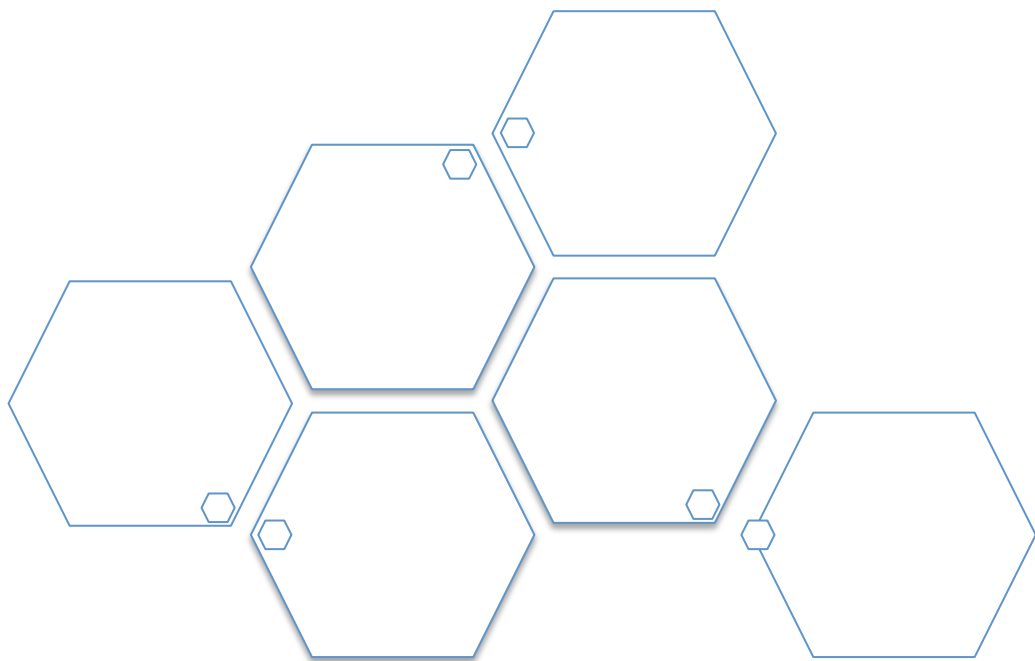
Define the following two terms:

- capital widening:
- capital deepening:

What are the outcomes of economic development?:

Positive:	Negative:

What factors need to be in place to enable a country to develop?:



Barriers to Economic Development

For each of the following barriers, explain WHY it is a barrier to a country's development and suggest some relevant examples from your own knowledge:

Lack of education

Lack of health care

Lack of infrastructure

Weak institutional/governance framework

Lack of a functioning financial system

Lack of an organised tax structure/large informal economy

Political instability and corruption

Unequal distribution of income

Primary product dependency/Adverse terms of trade

Protectionism from foreign countries

High levels of indebtedness

Capital flight

Non-convertible currency/Foreign currency gap

Social and cultural barriers

Poverty Trap/Low-level equilibrium trap

Growth and Development Strategies

Harrod-Domar Model:

What is the formula for the model?:

Draw and explain a diagram of the model:

Lewis Model:

Export-led Growth:

Import Substitution:

What are the key points of the ‘Washington Consensus’?:

-
-
-
-
-
-
-
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-
-

What is Foreign Direct Investment?

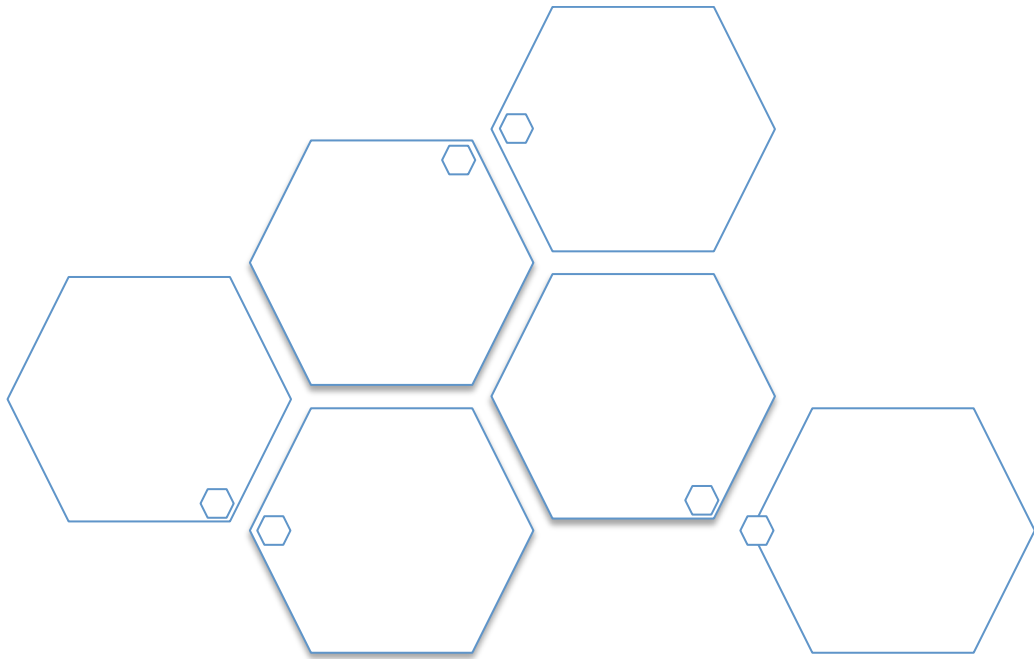
Advantages of FDI:	Disadvantages of FDI:

How does Fairtrade seek to promote economic development?

How does microfinance seek to promote economic development?

Aid and Indebtedness

Why is Aid provided to a country?



What is the difference between ‘humanitarian aid’ and ‘development aid’?

Trade can be classified in many different ways. Explain each of these:

- long-term loans:
- tied aid:
- project aid:
- technical assistance aid:
- commodity aid:
- bilateral aid:
- multilateral aid:

How does the World Bank support developing countries?

What are non-governmental organisations (NGO's) and how do they support developing countries?

What is the International Monetary Fund and how does it seek to support developing countries?

- What are the 'Structural Adjustment Policies' created by the IMF and why are they so controversial?

- How is this similar to the more recent 'Heavily Indebted Poor Countries Initiative'?

What is the difference between 'market-led' and 'interventionist' strategies?

What are the negative arguments surrounding aid?

Why is indebtedness a major problem for developing countries?